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nomenal rise in food prices from January, 1916 to March, 1917 has not entailed as great a hardship as might at first be supposed. Dr. Reitell's investigation showed this to be particularly true of the iron and steel and other "war" industries. On the other hand, as has been pointed out, for the salaried employes and trade unionists working on wage contracts it has meant a considerable hardship. On the whole it seems probable that wages are increasing less rapidly than food prices, and that in consequence standards of living in the long run are slowly falling.

CONSTITUTIONALITY OF FEDERAL REGULATION OF PRICES ON FOOD AND FUELS

By Clifford Thorne, Lawyer, Chicago.

A question has been raised in the minds of some eminent gentlemen who are in entire accord with the policy of regulating prices on food and fuels concerning the constitutional power of the federal government to regulate prices on commodities or services, other than those which are strictly public in character, like a railroad which has received certain privileges from the public in return for which it is subject to public regulation.

THE ISSUES

Two issues are involved: (1) the extent of jurisdiction by the federal government as distinguished from the several states over the subjects in question; and (2) does the police power of either a state or of the federal government include the authority to fix prices on such articles as food and fuels at a time like the present.

Our position is that Congress has the constitutional authority to establish or to authorize some tribunal to establish reasonable maximum prices on food and fuels during the period of the war. In support of this position we will briefly outline the fundamental principles of law which are involved. During the discussion of the cases we should bear in mind constantly:

A. The vital connection between the production and equitable distribution, at reasonable prices, of food and fuels, with the whole

defense program of the federal government, (1) in the manufacture and transportation of war munitions, and (2) in the efficient sustenance of the nation during the world war, wherein the other principal combatants have found it necessary to take over many of their industries, or to control the prices on these basic commodities during practically every stage of their participation in the conflict.

B. The monopolistic character of these enterprises at the present

time.

C. The effect of no regulation and control upon the general welfare of the public—directly, through their own purchases; and indirectly, but nevertheless more powerfully, in the advancing charges of railroads and public utilities of all kinds.

OUTLINE OF LEGAL PROPOSITIONS

The legal propositions which we hope to sustain may be summarized as follows:

- 1. In the interpretation of the Constitution the trend of the court decisions has been to limit the police power of the Congress to those subjects over which the federal government is given jurisdiction or control; all not so specifically granted being reserved to the several states.
- 2. The exercise of the police power to provide for the common defense carries with it all that which is necessary for the safety and welfare of the people during the period of the war, many things being permissible in a time of war which are prohibited in a time of peace. The safety of the state is of supreme importance.
- 3. The exercise of the police power over commerce, by either the state or federal governments, on subjects properly within their respective jurisdictions, has been sustained as to various matters, including:

The prevention of interference with the freedom of commerce by combinations in restraint of trade.

The prevention of nuisances.

The prevention of unreasonable charges, either excessive or discriminatory in character.

Ι

In the interpretation of the Constitution, the trend of the court decisions has been to limit the police power of Congress to those subjects over which the federal government is given jurisdiction or control; all those not specifically granted being reserved to the several states.

The above proposition is not subject to argument. There can be no question on the proposition that the Constitution grants to the federal government the power to: (a) provide for the common defense; and (b) regulate interstate commerce.

A question of some difficulty frequently arises when we attempt to draw the line between state and interstate commerce. In the case entitled *United States* v. E. C. Knight Co., 156 U. S., 1, the court held that the manufacture of sugar within the bounds of a given state did not constitute a restriction upon interstate commerce and thereby subject to the federal anti-trust act. The court went so far as to state:

Contracts, combinations, or conspiracies to control domestic enterprise in manufacture, agriculture, mining, production in all its forms, or to raise or lower prices or wages, might unquestionably tend to restrain external as well as domestic trade, but the restraint would be an indirect result, however inevitable and whatever its extent, and such result would not necessarily determine the object of the contract, combination, or conspiracy.¹

The foregoing dictum in so far as it referred to a combination to raise or lower prices not being subject to the federal act was reversed in the later case of Addyston Pipe and Steel Co. v. U. S., 175 U. S., 211.

The distinction between the manufacture and a contract to sell, was clearly made by the court in the *Knight Case*, and that distinction has been followed in subsequent decisions. While holding that the federal act did not apply to the police regulation of a manufacture within a state, the court held, however, that:

It will be perceived how far-reaching the proposition is that the power of dealing with a monopoly directly may be exercised by the general government whenever interstate or international commerce may be ultimately affected. The regulation of commerce applies to the subjects of commerce and not to matters of internal police. Contracts to buy, sell, or exchange goods to be transported among the several states, the transportation and its instrumentalities, and articles bought, sold, or exchanged for the purposes of such transit among the states, or put in the way of transit, may be regulated, but this is because they form part of interstate trade or commerce.²

In the Addyston Pipe and Steel Company Case, 175 U.S., 211, the principle in the Knight Case was restated in the following language:

The case was decided upon the principle that a combination simply to control manufacture was not a violation of the act of Congress because such a contract or

¹ United States v. E. C. Knight Co., 156 U. S., 16.

² Ibid., p. 13.

combination did not directly control or affect interstate commerce, but that contracts for the sale and transportation to other states of specific articles were proper subjects for regulation because they did form a part of such commerce.³

A commodity need not have commenced its journey beyond the bounds of a state, and yet it may still have been sold for delivery in another state. A combination among dealers may be subject to federal regulation. In the language of the court in the Addyston Case:

Decisions regarding the validity of taxation by or under state authority, involving sometimes the question of the point of time that an article intended for transportation beyond the state ceases to be governed exclusively by the domestic law and begins to be governed and protected by the national law of commercial regulation, are not of very close application here. The commodity may not have commenced its journey and so may still be completely within the jurisdiction of the state for purposes of state taxation, and yet at the same time the commodity may have been sold for delivery in another state. Any combination among dealers in that kind of commodity, which in its direct and immediate effect, forecloses all competition and enhances the purchase price for which such commodity would otherwise be delivered at its destination in another state, would in our opinion be one in restraint of trade or commerce among the states, even though the article to be transported and delivered in another state were still taxable at its place of manufacture.

The same principle that was enunciated in the Addyston Case was recognized in Swift & Co. v. U. S., 196 U. S., 375. In this case the rule applicable to the particular combination in restraint of trade was distinguished from that described in the Knight Case, supra. The combination for the control of the purchase and sale of cattle was held to be in violation of the federal act.

The injunction, however, refers not to trade among the states in cattle, concerning which there can be no question of original package, but to trade in fresh meats, as the trade forbidden to be restrained, and it is objected that the trade in fresh meats described in the second and third sections of the bill is not commerce among the states, because the meat is sold at the slaughtering places, or when sold elsewhere may be sold in less than the original packages. But the allegations of the second section, even if they import a technical passing of title at the slaughtering places, also import that the sales are to persons in other states, and that the shipments to other states are part of the transaction—"pursuant to such sales"—and the third section imports that the same things which are sent to agents are sold by them, and sufficiently indicates that some at least of the sales are of the original packages. Moreover, the sales are by persons in one state

³ Addyston Pipe and Steel Co. v. U. S., 175 U. S., 240.

⁴ Ibid., 245, 246.

to persons in another. But we do not mean to imply that the rule which marks the point at which the state taxation or regulation becomes permissable necessarily is beyond the scope of interference by Congress in cases where such interference is deemed necessary for the protection of commerce among the states. Nor do we mean to intimate that the statute under consideration is limited to that point.

In harmony with these principles is the act relative to the inspection by federal authorities of livestock at the various markets.

II

The exercise of the police power to provide for the common defense carries with it all that which is necessary for the safety and welfare of the people during the period of the war; many things being permissable in a time of war which are prohibited in times of peace. The safety of the state is of supreme importance.

This principle was splendidly stated in one of the Federalist letters, as follows:

As the duties of superintending the national defense and of securing the public peace against force or domestic violence involves a provision for casualties and dangers to which no possible limits can be assigned, the power of making that provision ought to know no other bounds than the exigencies of the nation and the resources of the community.⁷

In a very old and celebrated decision by the Supreme Court of Pennsylvania in 1788, the clear distinction is made as to the necessarily wide power of Congress or of the federal government, during a state of war.

The case was this: Congress, perceiving that it was the intention of the British army to possess themselves of Philadelphia, and being informed that considerable deposits of provisions, etc., were made in that city, entered into a resolution on the eleventh of April, 1777, that a committee should be appointed to examine into the truth of their information; and if it was found true, to take effectual measures, in conjunction with the Pennsylvania Board of War, to prevent such provisions from falling into the hands of the enemy.

On this state of facts the court held:

On the circumstances of this case, two points arise;

1st. Whether the appellant ought to receive any compensation, or not? and 2nd. Whether this court can grant the relief which is claimed?

⁶ Swift & Co. v. U. S., 196 U. S., 375, 399.

I Supp. Rev. Stat., p. 938, as amended in II Supp. Rev. Stat., p. 404.

⁷ The Federalist, Letter 31.

Upon the first point we are to be governed by reason, by the law of nations, and by precedents analogous to the subject before us. The transaction, it must be remembered, happened flagrante bello; and many things are lawful in that season, which would not be permitted in a time of peace. The seizure of the property in question, can, indeed, only be justified under this distinction; for, otherwise, it would clearly have been a trespass; which, from the very nature of the term, transgressio, imports to go beyond what is right. It is a rule, however, that it is better to suffer a private mischief, than a public inconvenience; and the rights of necessity, form a part of our law.

Houses may be razed to prevent the spreading of fire, because for the public good. We find, indeed, a memorable instance of folly recorded in the 3rd volume of Clarendon's History, where it is mentioned that the Lord Mayor of London, in 1666, when that city was on fire, would not give directions for, or consent to, the pulling down of forty wooden houses, or to the removing of the furniture, etc., belonging to the lawyers of the temple, then on the circuit, for the fear he should be answerable for trespass; and in consequence of this conduct half that great city was burnt.

We are clearly of opinion, that Congress might lawfully direct the removal of any articles that were necessary to the maintenance of the Continental army, or useful to the enemy, and in danger of falling into their hands; for they were vested with the powers of peace and war, to which this was a natural and necessary incident. And, having done it lawfully, there is nothing in the circumstances of the case, which, we think, entitles the appellant to a compensation for the consequent loss.¹⁰

III

The exercise of the police power over commerce, by either the state or federal governments (on subjects properly within their respective jurisdictions), has been sustained as to various matters, including:

- (1) The prevention of interference with the freedom of commerce by combinations in restraint of trade;
 - (2) The prevention of nuisances; and
- (3) The prevention of unreasonable charges, either excessive or discriminatory in character,
 - (a) By companies engaged in a public service; and
- (b) By companies engaged in a business in which the public has an interest, even though that business is not strictly public in character.

Scores of precedents could be cited in support of the foregoing propositions, but we are only concerned in the last one stated, and it is this issue about which the present controversy hinges.

⁸ 5 Bac. Abr., 150.

⁹ Dyer, 36. Rud. L. and E., 312. See Puff, Lib. 2, c. 6, Fec. 8. Hutch. Mor. Philos. Lib. 2, c. 16.

¹⁰ Respublica v. Sparhawk, 1 Dallas, 357, 362, 363.

The "police power" of a government is very extensive and cannot be defined definitely at any particular time; it is that power of the government to do that which is necessary for the general welfare of the people. This power has been interpreted as including regulations for the health, morals and safety of the public, to prevent excessive and discriminatory charges, to prevent combinations in restraint of trade, to provide for the common defense, and for such other things as may arise from time to time as may be deemed for the general welfare of society. This police power of providing for "the general welfare" was specifically granted to Congress by the Constitution of the United States. Mr. Justice Miller in the Slaughter House Cases, 16 Wall., 36, 62, described the police power in the following language:

This power is, and must be, from its very nature, incapable of any very exact definition or limitation. Upon it depends the security of social order, the life and health of the citizen, the comfort of an existence in a thickly populated community, the enjoyment of private and social life, and the beneficial use of property. 11

The language of the Constitution in both the Preamble and in Section 8 of Article I, very clearly grants this broad power of caring for the "general welfare" to the federal government.

Many have specifically declared recent acts of Congress to be unconstitutional, holding that such would be the ruling of any court in a case properly presented were it not for the possible effect of the strenuous war period at the present date. Others tremble for future developments along these same lines. It is our belief that the power of Congress to provide for the establishment of reasonable maximum charges on food and fuels has been clearly recognized by the courts in well considered opinions of former days, and there can be no question about the power of Congress to act in the present emergency.

Mr. Ernst Freund, of the University of Chicago, in his work on *The Police Power*,¹² has quite accurately summarized the law relative to the power of a government to regulate prices under its exercise of the police power, in the following language:

The justification for regulating charges in some particular business would usually be that it constitutes a de jure or de facto monopoly or enjoys special privileges; but it may also be that the commodity selected is a necessary of life, or that

¹¹ Justice Miller in the Slaughter House Cases, 16 Wall., 36, 62.

¹² See page 389.

it is essential to the industrial welfare of the community, or that it has been immemorially the subject of regulation.¹³

The context surrounding this statement by Mr. Freund should be considered:

A possible solution of the difficulty may be found in the application of the principle of equality. Conceding that it is within the general scope of the police power to prevent unreasonable charges as constituting a form of economic oppression and, as a means of prevention, to fix rates, yet it is clear that a systematic regulation of charges of all commodities and services is not within the range of practical legislative policy. All such legislation will necessarily apply to particular classes of business. Under the principle of equality the classes so singled out should have some special relation to the possibility of oppression. The justification for regulating charges in some particular business would usually be that it constitutes a de jure or de facto monopoly or enjoys special privileges; but it may also be that the commodity selected is a necessary of life, or that it is essential to the industrial welfare of the community, or that it has been immemorially the subject of regulation. Upon this theory it is possible to account for existing legislation without conceding legislative power with regard to any and all commodities, which it may choose to select, and on the other hand, to allow for new applications of this power, while subjecting them to an efficient judicial control which will undoubtedly be claimed and exercised. There will thus be an adequate safeguard against arbitrary class legislation in the matter of regulation of charges. All legislation in this matter will, moreover, be subject to the principle of reasonableness of the rate fixed,—a principle which has become established in a series of important decisions.14

Illustrating the tendency of these rules in regard to the regulation of prices, Mr. Freund states the following:

It has been shown that the opinions delivered in the earlier grain elevator cases strongly relied upon the monopolistic character of the business. The monopoly in these cases was not a legal one, but it was held to exist virtually and de facto. The argument of special privileges does not avail in such a case to justify the regulation of charges; but since the common regulating factor, competition, is absent, a condition is presented which calls for the exercise of the police power for the prevention of oppression. The police power is exercised for the prevention of monopolies, where they rest upon the preventable machinations; it follows that where a monopoly is inevitable by reason of natural conditions, the power must exist to minimize its detrimental effects. Wherever physical conditions are naturally limited for carrying on some business, a case arises for special control; and this will often be true of mill and wharf rights; but it is also possible that economic conditions will tend to make a business a monopoly; so the business of an exchange cannot be advantageously carried on except by a cooperation and

¹³ The italics are mine.

¹⁴ The Police Power, by Ernst Freund, page 389.

concentration of all interests. The regulation of charges would seem as justifiable here as in the grain elevator cases.¹⁵

Some illustrations of these same principles are cited from England by Mr. Freund, as follows:

An instance of regulation of prices in case of a monopoly is found in Dasent, Acts of the Privy Council, 1545, p. 192; on complaint made by the whole company of bowyers that one Petersvan Helden, of the Steelyard, having in his hands the whole trade of bringing in of bowstaves into the realm, demanded such excessive prices as they were not able to live up the gain that should rest upon them, giving so excessively for the same, it was ordained that he should not demand above £7 sh. 10 for the band.—In the leading English case, Allnut v. Inglis, 12 East, 527, the power to prevent unreasonable charges was based upon the special privileges enjoyed by the dock company.

In the leading case of Munn v. Illinois, 94 U.S., 113, the basic principles were stated justifying the exercise of the police power by the state in the naming of charges for services rendered. These doctrines have been applied consistently in subsequent cases.

In Budd v. New York, 143 U. S. 517, at page 535, the Supreme Court succinctly stated the gist of the doctrine established in Munn v. Illinois, as follows:

It said, that under the powers of government inherent in every sovereignty, "the government regulates the conduct of its citizens one toward another, and the manner in which each shall use his own property, when such regulation becomes necessary for the public good"; and that, "in their exercise it has been customary in England from time immemorial, and in this country from its first colonization, to regulate ferries, common carriers, hackmen, bakers, millers, wharfingers, inn-keepers, etc., and in so doing to fix a maximum of charge to be made for services rendered, accommodations furnished, and articles sold." It was added: "To this date, statutes are to be found in many of the states upon some or all these subjects; and we think it has never yet been successfully contended that such legislation came within any of the constitutional prohibitions against interference with private property."

In a case entitled Cotting v. Kansas City Stock Yards Co., 183 U. S., 79, the writer of the opinion of the court, Mr. Justice Brewer, attempted to make a distinction between the method by which the state should determine the charges levied by a company performing some public service, as distinguished from companies not engaged in such services, and which have devoted their property to a use in which the public has an interest. ¹⁶ Mr. Justice Brewer cited Munn

¹⁶ The Police Power, by Ernst Freund, p. 387.

¹⁶ Cotting v. Kansas City Stock Yards Co., 183 U.S., 85.

v. Illinois, and a large number of subsequent decisions based upon that case, making the following comment:

These decisions go beyond but are in line with those in which was recognized the power of the state to regulate charges for services connected with any strictly public employment, as, for instance, in the matter of common carriage, supply of water, gas, etc.¹⁷

Mr. Justice Brewer had frequently dissented from the prevailing application of *Munn* v. *Illinois*, but in writing the opinion in the *Stock Yards Case*, he frankly held that the state had the power to make reasonable regulation of the charges for services rendered by the Stock Yards Company.

At great length Mr. Justice Brewer outlined a difference in principle in the determination of what the charges should be for a company performing a public service, and on performing a service in which the public is interested, but not a distinctly public employment. He also discussed a second issue and held that the statute of Kansas was in violation of the Fourteenth Amendment to the Constitution of the United States in that it applied to the Kansas City Stock Yards Company only, and not to other companies engaged in like business in that state.

It was on this second point, and that alone, that a majority of the Supreme Court concurred with Mr. Justice Brewer, who wrote the opinion. Six members of the court declined to concur or to express an opinion on the first question stated. In this decision Mr. Justice Brewer stated:

While not a common carrier, nor engaged in any distinctly public employment, it is doing a work in which the public has an interest, and, therefore, must be considered as subject to government regulation.

In the recent case of German Alliance Insurance Co. v. Kansas, 233 U. S., 389, the issue was whether insurance rates could be regulated by the state under its police power. The opposition claimed:

The basic contention is that the business of insurance is a natural right, receiving no privilege from the state, is voluntarily entered into, cannot be compelled nor can any of its exercises be compelled; that it concerns personal contracts of indemnity against certain contingencies merely. Whether such contracts shall be made at all, it is contended, is a matter of private negotiation and agreement, and necessarily there must be freedom in fixing their terms. And

¹⁷ Cotting v. Kansas City Stock Yards Co., 183 U.S., 85. Italics are mine.

"where the right to demand and receive service does not exist in the public, the correlative right of regulation as to rates and charges does not exist." ¹⁸

The issue was very clearly stated by the court in the following language:

We may put aside, therefore, all merely adventitious considerations and come to the bare and essential one, whether a contract of fire insurance is private and as such has constitutional immunity from regulation. Or, to state it differently and to express an antithetical proposition, is the business of insurance so far affected with a public interest as to justify legislative regulation of its rates! 19

The discussion by the court of the factors involved is very instructive. Summarizing a review of the cases the court stated:

The cases need no explanatory or fortifying comment. They demonstrate that a business, by circumstances and its nature, may rise from private to be of public concern and be subject, in consequence, to governmental regulation. And they demonstrate, to apply the language of Judge Andrews in People v. Budd, 117 N. Y., 1, 27, that the attempts made to place the right of public regulation in the cases in which it has been exerted, and of which we have given examples, upon the ground of special privilege conferred by the public on those affected cannot be supported. "The underlying principle is that business of certain kinds holds such a peculiar relation to the public interests that there is superinduced upon it the right of public regulation." Is the business of insurance within the principle? It would be a bold thing to say the principle is fixed, inelastic, in the precedents of the past and cannot be applied though modern economic conditions may make necessary or beneficial its application. In other words, to say that government possessed at one time a greater power to recognize the public interest in a business and its regulation to promote the general welfare than government possesses today. We proceed then to consider whether the business of insurance is within the principle.20

The court holds the insurance business to be of such a character as to justify public regulation. The existence of a monopoly as a justification for regulation is well established and generally recognized. Mr. Wyman in his work on *Public Service Corporations*, written while a member of the law faculty of Harvard, stated the accepted doctrine in the following language:²¹

It will have been noticed, therefore, that the principle of law which permits the regulation of these callings has never been abandoned, though the conditions calling for its application at various times have greatly changed. Whenever the

¹⁸ German Alliance Insurance Co. v. Kansas, 233 U.S., 405.

¹⁹ Ibid., 406.

²⁰ Ibid., 411.

²¹ Sec. 29, 33.

public is subjected to a monopoly the power of oppression, inherent in a monopoly, is restricted by law. Whenever, on the other hand, competition becomes free, both in law and in fact, the need of governmental regulation ceases; public opinion ceases to demand such regulation, and the law withdraws it.

The programme of organized society is practically to see to it that those who have gained a substantial control of their market shall not be left free to exploit those who look to them to supply their needs. Men now see clearly that freedom of action in the industrial world may work injuriously for the public, and it must then be restrained in the public interest. Having seen the results of unrestrained power we no longer wish those who have control of our destinies to be left free to do with us as they please. Such liberty for them would mean enslavement for us.

The broad police power of the government in regard to matters over which it has control has been constantly stated and restated in the decisions. The following is typical:

Regulations respecting the pursuit of a lawful trade or business are of very frequent occurrence in the various cities of the country, and what such regulations shall be and to what particular trade, business or occupation they shall apply, are questions for the state to determine, and their determination comes within the proper exercise of the police power by the state, and unless the regulations are so utterly unreasonable and extravagant in their nature and purpose that the property and personal rights of the citizen are unnecessarily, and in a manner wholly arbitrary, interfered with or destroyed without due process of law, they do not extend beyond the power of the state to pass, and they form no subject for federal interference.²²

Conclusion

Public necessity—the general welfare—is the test as to the extent of the police power of a government. What shall be regulated is a legislative question, and the courts will not interfere with the action of the Congress or state legislature over matters under their control, providing there is not a clear abuse of legislative discretion, an arbitrary action without reason or justification.

The regulation of prices on food and fuels during the war is justified for the reason that the general welfare of the people demands this action: (1) because the purchase and sale of these commodities in different parts of the country have been dominated by powerful combinations of moneyed interests which are exacting excessive charges for that which they have to sell; and (2) as a matter of common defense in a war where other governments have resorted to the same and even more drastic measures.

It would be a strange and most unfortunate situation, while

²² Gundling v. Chicago, 177 U.S., 183.

other governments are protecting their people from exorbitant charges at this crucial period in world history, if our government should be helpless to do so; or possessing that power, it should fail to perform a similar service for the American people.

Without attempting to discuss the various provisions of the measures which have passed Congress, if the basic principle upon which these laws are framed should be tested, the decisions of the courts of last resort clearly indicate that the acts in question would be sustained and be within the legislative discretion of Congress.

WHAT COÖPERATION CAN DO AND IS DOING IN LOWERING FOOD COSTS

By PETER HAMILTON, New York City.

Legislation and proclamations, intended to restrain the disposition toward exorbitant prices, can have but a temporary and imperfect result because they do not touch, or they touch very superficially, the fundamental cause of extortion. They are like the remedies of the old-fashioned medical practitioner of a generation ago, who treated symptoms with strong drugs instead of seeking to remove the cause of disease. Frequently the drug effects complicated the symptoms, so that the patient was in worse straits than before. Modern medicine has learned that until the cause has been removed it is futile to merely treat symptoms.

Scarcity of supply, greatly increased demand, one or both, are the legitimate immediate causes of high prices. Monopoly, artificial scarcity induced by withholding supplies from an eager market, cupidity, employing one pretext or another, are the immediate causes of extortion. But back of monopoly, back of cupidity and chicanery is the selfish motive of private profit. It is for this that men cheat each other and descend to all the unfair practices which have puzzled legislators and reformers. This is the fundamental cause of extortion and sharp practice between men and between nations. Indeed, if complete analysis be made, it is the cause of war itself. Our legislators and reformers are like the old-fashioned practitioner, frantically treating symptoms with strong